

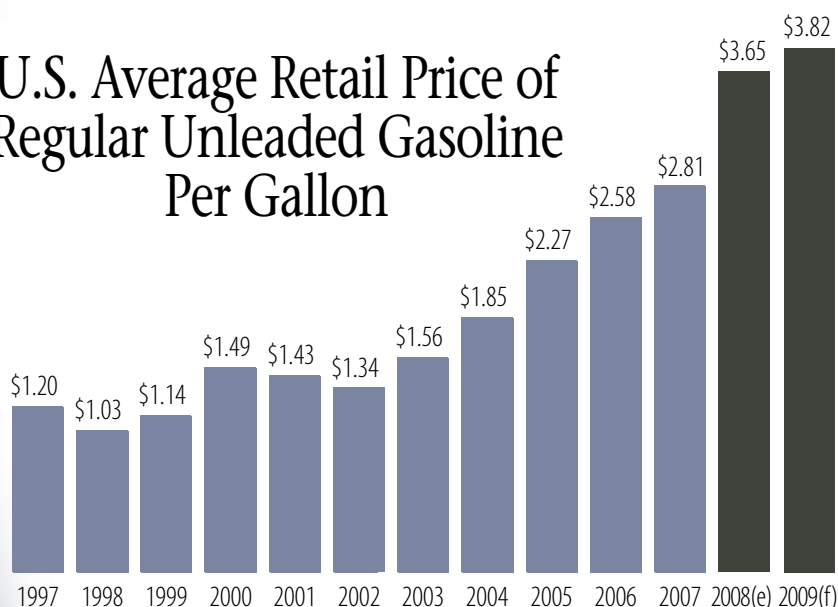


Energy Costs— Up, Up, and Away

A list of significant and persistent forces are continuing to put upward pressure on petroleum and natural gas prices.

First among these forces is growing global demand, even in the face of a seven-year run-up in prices, led by ever more consumption in China, India, and other Asian, Middle Eastern, and African countries. The relatively weak dollar, which has lost purchasing power relative to oil and other commodities, directly raises energy costs to U.S. consumers. Geopolitical tension and conflicts raise the specter of supply disruptions—the fear of potential war between Iran and the U.S. or Israel over Iranian nuclear activities or as a spillover from the Iraq war, and conflict between rebels and the Nigerian government that has affected their oil production. Additional concerns include the beginning of the hurricane season, speculators manipulating energy markets, and declining production from old oil fields while new projects and production suffers from soaring costs and chronic delays.

U.S. Average Retail Price of Regular Unleaded Gasoline Per Gallon



(e) - estimate (f) - forecast

The very tight market for petroleum has a precarious balance between supply and demand of energy that could be easily disrupted driving prices even higher.

As a result, the relatively high costs for gas, diesel, jet fuel, and natural gas are expected to continue at levels comparable to current prices and increase in the coming year. While there can be monthly and seasonal temporary price reductions, energy experts believe the overall trend to be higher prices.

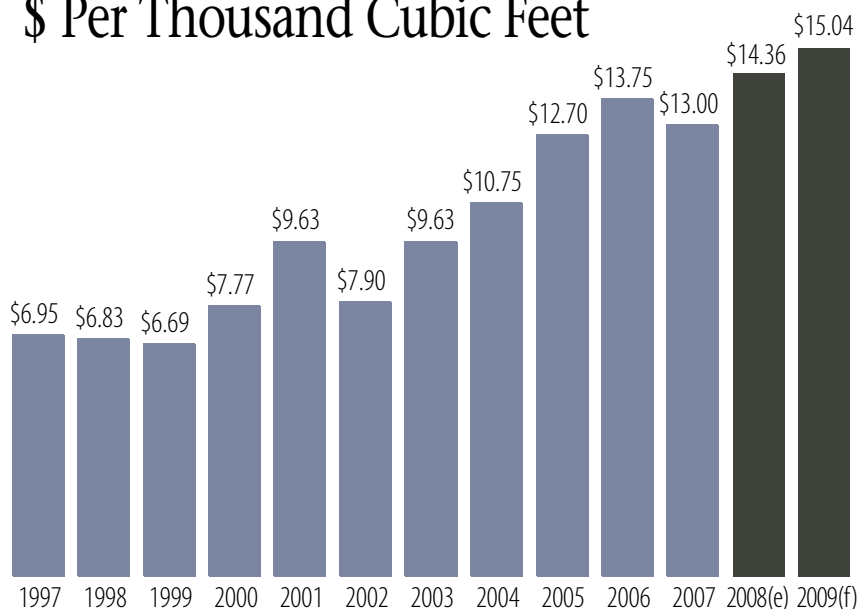
Forecasts of the U.S. Energy Information Administration indicate that this winter, the cost of regular-grade gasoline, which averaged \$2.81 per gallon in 2007 nationally, is expected to average \$3.65 for 2008 and \$3.82 per gallon during 2009. U.S. diesel fuel prices averaged \$2.88 in 2007, are estimated to average \$4.18 cents for 2008 and increase to \$4.27 on average during 2009.

All of the higher energy costs will adversely affect growth in the U.S. economy as consumers and businesses spend more for energy and less on other things. The direct effects on consumers, paying more for running their cars and heating their homes, reduces their disposable income and savings or increases their debt. Furthermore, these high energy costs will ripple throughout the economy with higher production, transportation, and other operating costs for all businesses.

To date, the economy has shown remarkable resiliency in spite of the high-priced energy headwinds. It is unclear how much longer consumers and businesses can absorb these higher costs without a more serious economic downturn. ⓘ

The costs for gas, diesel, jet fuel, and natural gas are expected to continue at their current levels and increase in the coming year.

U.S. Average Residential Natural Gas Price \$ Per Thousand Cubic Feet



(e) - estimate (f) - forecast

Source: U.S. Energy Information Administration.